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UNCLAS SECTION 01 OF 03 SHANGHAI 000009

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USDA FOR FAS/OSTA AND FAS/OCRA/CHINA
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E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EAGR](#) [SENV](#) [TBIO](#) [PGOV](#) [CH](#)

SUBJECT: DELAYED REVELATIONS OF MELAMINE-TAINTED DAIRY PRODUCTS
SUGGEST GOVERNMENT COVER-UP

REF: 08 SHANGHAI 498

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11. (SBU) SUMMARY: December 31 media reports of the closure of Shanghai Panda Dairy for producing melamine-tainted milk products have led to the revelation that Chinese authorities have known of the company's transgressions for nearly a year. Chinese authorities quoted in the media have attributed the long delay in informing the public to the lengthy, ongoing criminal investigation. It is not clear exactly when Shanghai Panda was shut down and for what period of time tainted products may have reached Chinese consumers. Shanghai Panda is not authorized to export, and the U.S. Food and Drug Administration (U.S. FDA) does not have any record of Shanghai Panda exporting to the United States. The discovery that the Central Government and dairy industry were aware of the incident by at least April 2009 has fueled suspicions of a cover-up to aid China's dairy industry that is still reeling from the fall 2008 melamine scandal. END SUMMARY.

12. (U) On December 31, Chinese and international media reported the recall of product from and the closure of Shanghai Panda Dairy Co., Ltd. (Shanghai Xiongmiao Rupin Youxian Gongsi) following the discovery of "unacceptably high levels" of the chemical melamine in milk products produced by the company. Reports also said that the company's chairman WANG Yuechao, general manager HONG Qide, and deputy general manager CHEN Dehua were taken into custody. The melamine was discovered during routine inspections by the Shanghai Municipal Government of high-calcium milk powder marketed as a vitamin supplement for middle-aged and elderly consumers, as well as in condensed milk, according to the press reports. Media reports that also quote Shanghai prosecutors alleged that Shanghai Panda Dairy used recalled milk products not destroyed after the fall 2008 melamine-tainted milk scandal. However, in various press reports, General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) Inspection Division Deputy Director YAN Fengmin refuted claims that the raw material used in this latest incident with Shanghai Panda was left over from products in the 2008 scandal. An industry source told the Consulate that the Shanghai Quality Supervision Bureau would have sealed the Shanghai Panda warehouse in 2008 and required the owners to destroy the contaminated products by either incineration or putting them in a landfill. This source speculated that Shanghai Panda managed to remove and keep some tainted powder from its warehouse in 2008 and secretly mixed it with good powder for the products currently under investigation.

13. (U) Melamine is an industrial chemical used in plastics which, when added to milk products, boosts the protein level reading of quality tests. The chemical was at the heart of one of China's worst food safety scandals in the fall of 2008 where six children died and over 300,000 were sickened by melamine-tainted milk products. As a result of the scandal, in November 2008, the U.S. FDA issued an import alert on dairy and dairy-containing products from China, largely prohibiting the importation of such products to the United States. Chinese firms who are able, through reliable laboratory testing, to demonstrate that their products are free from melamine and other similar substances are permitted to ship their products to the United States.

14. (SBU) Shanghai Panda was one of the companies implicated in September 2008 (with the second highest melamine content of the 22 companies implicated), and was allowed to resume production only after it promised to strengthen its safety procedures, according to media reports. According to AQSIQ contacts, Shanghai Panda's export authorization was revoked by Shanghai CIQ on September 16, 2008. Shanghai Panda is not registered in U.S. FDA's food facility database, nor does U.S. FDA have any record of Shanghai Panda exporting to the United States.

15. (SBU) Shanghai Food and Drug Administration International and Legal Affairs Division Director XU Jin confirmed to Congen Shanghai that the most recent revocation of the food manufacturing license and sanitation certification of Shanghai Panda Dairy arose from a new discovery of melamine-contaminated milk products separate from the 2008 incidents. The new finding of contamination was uncovered by Shanghai's (Food) Quality Supervision Bureau, reported to the Shanghai Municipal Government via the interagency Food Safety Committee, which made the decision to shut down the company, Xu said.

16. (SBU) Subsequent media reports have alleged that Chinese food-safety authorities were aware that Shanghai Panda was

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producing melamine tainted products as early as December 2008 (a mere three months after the company was implicated in the 2008 melamine scandal), and began a full-scale investigation in February 2009, without any warning or announcement to the public for nearly one year. On January 6, 2010, Fengxian District prosecutors issued a statement confirming that authorities had discovered tainted products from Shanghai Panda and initiated an investigation in February of last year and that the three executives were arrested in April 2009, not recently as the initial December 31 reports suggest. Consulate dairy industry contacts also confirmed the Shanghai government identified a potential problem with Shanghai Panda Dairy in early 2009 and started the investigation immediately. While Shanghai authorities have not offered any reason for such a delay in any public announcement, AQSIQ Inspection Division Deputy Director YAN Fengmin was quoted in press reports as saying that the case was withheld for such a long time because it was "under criminal investigation."

17. (U) The Consulate has discovered a Chinese-language article indicating that on April 29, 2009, AQSIQ issued an internal circular to all provincial inspection and quarantine bureaus on the investigation into Shanghai Panda Dairy's "illegal production of fake or substandard dairy products." The April 29 document was not announced or released to the public at that time (NOTE: What appears to be a full text of the document in Chinese is available at http://law.baidu.com/pages/chinalawinfo/11/82/413f0a606870323a1cddb64e4eefb2934_0.html. END NOTE). The AQSIQ circular also states that the company was effectively shut down and tainted product recalled and destroyed in April 2009, although some recent press reports suggest that Shanghai Panda product was on the shelves as recently as two weeks ago. Moreover, the AQSIQ document also notes that the Shanghai Panda products were believed to have contained melamine-tainted raw materials from the 2008 scandal, which contradicts recent AQSIQ statements in the press. Subsequently, during a November 26

2009 teleconference reported in the Chinese media, Minister of Health CHEN Zhu noted that severe punishment should be given to food producers that continually offend food safety laws. According to press accounts of that conference, Chen specifically mentioned an investigation by the Shanghai Municipal Public Security Bureau of Shanghai Panda Dairy for producing condensed milk containing melamine, but again, no formal public warning or indictment of the company was made at that time.

18. (SBU) Following Chen's statement, the Shanghai-based attorney for Zhejiang Panda Dairy, Co. Ltd. issued a statement to clarify that the Zhejiang company (owned by the state-run Zhejiang Cereals, Oils and Foodstuffs Import and Export Co., Ltd. and located in the city of Wenzhou) is a separate entity and has no ownership relationship with Shanghai Panda Dairy. There are several dairy companies in China that use the "panda" brand name and some media reports have suggested linkages between the various panda dairy companies and Shanghai Panda, although most of these connections are unconfirmed or have been explicitly denied by the companies in question. In the case of Zhejiang Panda, however, some press reports have indicated that Shanghai Panda's chairman WANG Yuechao is a relative of Zhejiang Panda general manager LI Zuogong. Consulate dairy industry contacts also noted that Shanghai Panda Dairy "was managed" by people who used to work for Zhejiang Panda Dairy. According to the available media reports, Shanghai Panda is a private company and its products are only available in smaller cities in China. Our contacts indicated that up to now, Shanghai investigators have not discovered in which part of the production procedure the melamine was added to the milk products.

COMMENT

19. (SBU) The 2008 melamine-tainted milk scandal received intense international and domestic attention and generated concerns over China's food and product safety regime. The scandal helped to push forward passage in February 2009 of China's comprehensive Food Safety Law aimed at strengthening and streamlining China's food safety system through nationwide standards, enhanced coordination among government agencies, and other mechanisms. Facts are still dribbling out in this most recent case, but it appears that authorities and the industry had knowledge of Shanghai Panda's transgressions a year before being announced to the public. The long delay in announcing the

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discovery of melamine-tainted products at Shanghai despite evidence that the Central Government was aware of the problem by at least April 2009 suggests a cover-up, possibly to protect a Chinese dairy industry reeling from the 2008 revelations. It will be interesting to see the extent to which the authorities allow the media to investigate this case as a gauge of official willingness to accept public scrutiny of the behavior of China's regulatory agencies.

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